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# **STUDY ON THE PROPERTY TAX**

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## INTRODUCTION

### Introduction

This paper on the Property Tax is the first in a series of studies prepared by the Association that will highlight, explain, and analyze various aspects and issues related decentralization and local government finance reform in the Republic of Macedonia. This study will propose recommendations that can be pursued at both the central and local government levels to improve and enhance local financial administration and revenue generation. This report series is funded with the assistance of the USAID with technical support and guidance provided by the Local Government Reform Project for Macedonia (LGRP). The LGRP is funded by the USAID and administered by Development Alternatives, Inc.

### About the Association:

The Association of Finance Officers of Local Government and Public Enterprises (AFO) is voluntary organization of professionals whose members are finance officers and accountants employed by the local governments, public enterprises, the regional offices of the Ministry of Finance and other institutions in the Republic of Macedonia.

The Association's activities are supported through membership fees, donations and grants from several international organizations. These funds are mostly aimed at:

- Promotion of the professionalism, independence and expertise of the finance officers and accountants;
- Professional education for the application of regulations from the sphere of financial operations, application of the IAS, treasury operations, etc.;
- Organizing workshops and seminars used to practically demonstrate examples of preparation of budgets of local governments, financial plans, and reports of public enterprises and other users of budgets, and other similar activities;

### The Association and its Work on behalf of Local Government Reforms

AFO has been actively involved in analyzing, reviewing and providing recommendations on issues and legislation related to local government reforms and fiscal decentralization currently underway in the country. The association takes a particular interest in the application of these new laws and regulations particularly in the area of local government financing and budgeting. Since its members are typically responsible for implementing these new regulations, they are in a good position to determine how well, or not, such regulations are working as intended. The Association, independently or in collaboration with ZELS, works with local and ministry officials in proposing amendments to these laws as required. In addition, over the past several years AFO has participated in the active debates and



development of local government policy recommendations on two significant pieces of legislation effecting local governance in the Republic of Macedonia—amendments to the Law on Locals Self-Government passed in January 2002, and the draft local finance law. Currently the government is working on twin tracks of developing and passing both the Law on Territorial Division and the Law for Financing of Local Governments. .

So far in the Republic of Macedonia there have been periods in which at the territory of the country existed of 60, 80, 34 and 124 local self-government units with different levels of competencies and functions. Therefore, determining the measures and criteria for the new territorial division will not be an easy or simple process.

The main topic of interest to the AFO is the Law for Financing of Local Self-Governments and supplementary regulations that need to redefine the financial and administrative relationships and responsibilities between the Central and local government.

The competencies of local governments determined by the Law on local self-government will be empty words if they are not supported with stable sources of financing. Funds to be used for financing of local governments, aside from the part coming from the Central Government, should primarily come from own local source revenues. Although the units of local governments will have the right to pass legal acts for their own revenues, for the general financial stability of the Republic it will be inevitable to introduce appropriate limitations that will lead to some cooperation with the Central Government.

In accordance with article 11 from the Law on local self-government, the municipality is financed from its own revenues and other sources of financing. The following local sources of revenues were defined: local taxes, and fees determined by the Law and complying with the state economy policy.



## Study on Property Tax

When deciding on developing the study, AFO considered the following processes and procedures regarding property tax assessment, administration and collection in the Republic of Macedonia:

- The property tax has been and still is the own source of revenues of municipalities;
- Although this tax has had a small participation in the total fiscal collection at the state level, it has been and can be a significant and stable source of revenues for the local self-government units;
- Unless a real market value is determined and all taxpayers pay it, this tax can indirectly influence the economic power of a local self -government unit;
- Contrary to the Central Government, which, based on the current experience, has showed little interest in the correct and full implementation of this kind of tax, it is real to expect that local governments will show great interest in its collection.
- As it is hard to expect that the laws to regulate financing of local governments will be passed before the end of 2003, the Property Tax Law could be passed sooner and initial experiences of its administration at the local level could be demonstrated in several pilot municipalities.
- In the assessment of the practical implementation of this law, the capacity of municipal public enterprises in performing certain technical and administrative operations could be tested.

- **Subject**

The subject of the research and elaboration is the property tax.

- **Legal framework**

The Property Tax Law

(Official Gazette of RM,, no. 80/93, 3/94, 71/96, 54/2000 and 13/2001)

- **Types of property taxes:**



- Property tax
- Tax on inheritance and gift;
- Trade Tax

- **Subject to taxation**

The property tax is paid for the ownership of real estate property, non-agricultural land, residential buildings or apartments, business premises, administrative buildings, buildings or apartments for vacation, garages and other building facilities.

The property tax is paid for movable property: cars with engine displacement of 1.8 lit., buses, trucks, truck trailers, tractors, combine, and planes.

The property tax from paragraph 2 is paid if the stated property is not directly used for business activities.

- **Taxpayer**

A taxpayer is a legal or physical entity that owns property.

In some cases the taxpayer can be the user of the property.

If more people own the property, each one of them pays the tax commensurate with the part of the property owned.

- **Tax base**

The property tax base is the market value of the real estate and movable property.

The value is stated in the property tax form by the taxpayer.

If the public revenue office assesses that the stated value is not real, the value is determined on the basis of comparison with the same or similar property of another taxpayer.

- **Tax rates**

Tax rates are proportional.

The property tax rate is 0.10%

- **Tax exemptions**

The property tax is not paid for:

1. Buildings and land owned by the state and used by the state and local government bodies;
2. Buildings and land used for educational, cultural, scientific, social, health, humanitarian and sports purposes, excluding buildings respectfully parts of buildings and land that are exploited or are leased;



3. Buildings and land owned by the Macedonian Orthodox Church and other religious institutions or used for non religious procedures or living by other official personnel, except those used for business purposes;
4. Business buildings in agriculture;
5. Business buildings and premises used for doing business, except for administrative buildings;
6. Buildings of public enterprises and institutions founded by the Parliament of the Republic of Macedonia, Government of RM, municipalities and the City of Skopje;
7. Buildings and land of foreign diplomatic and consular representatives and international organizations' offices, if owned by them, on the condition of reciprocity;
8. Residential buildings in the rural areas in the mountainous regions determined by the Government of RM;
9. Damp (accumulations) for water supply, irrigation or production of power, as well as facilities built for the protection of land, waters, and air;
10. Construction land;
11. Facilities by companies used for engagement, professional rehabilitation and employment of invalids;
12. Infrastructure facilities as: roads, railroads, ports, airports, and facilities which are their accompanying part if not used for revenue making purposes;
13. Land owned by the State that is not used for economic exploitation or is leased such as: streets, parks, national parks, forests that are not used for revenue making purposes;
14. Water areas that are not used for economic purposes;
15. Land used for exploitation area in the mine industry and for geological research, and,
16. Agricultural land that is used for agricultural production.

### • **Tax concessions**

A taxpayer that owns a residential building or an apartment that he/she and their family use for living has a right of 50% decrease of the property tax.

An obligation to pay the property tax comes into force:

1. On the day of issuing of approval for the use of the real estate property by the body in charge, respectively on the day the property starts to be used;
2. From the day the property is acquired.

### • **Collection (who collects the tax)**

For determining of the tax, complaints, forced collection, procedures for penalties and other issues that are not determined by the Property tax Law, will correspondingly be used the provisions from the Law on the personal income tax that determines the rate and collection of the tax which are done by the public revenue office.



If the property is located in the area of two or more municipalities, the tax is determined by the public revenue office for the property value located in the area of the respective municipality.

For the inherited property, respectively property given as gift, the tax is determined by the public revenue office located in the taxpayer's place of residence.

- **Basis for determining of the tax**

The property tax is determined on the basis of the data from the tax form, business books from the taxpayers and other data in possession of the public revenue office.

- **Deadlines - property tax**

The taxpayer is obliged to submit a tax form by 31 January in the year for which the tax is being determined.

For the property that is acquired or used during the year, or if the tax obligation occurs on some other basis, the taxpayer is obliged to submit a tax form within 15 days from the day the property is acquired, started to be used, respectively the day the tax obligation begins.

The public revenue office is obliged to pass a decision on the property tax amount by 31 March the latest in the year for which the tax is being determined and submit the tax bill to the taxpayer.

- **Deadlines- Inheritance tax and gift tax**

The taxpayer that pays inheritance and gift tax is obliged to submit a tax form within 15 from the day the tax obligation has occurred.

The tax form is submitted to the public revenue office

If the taxpayer inherits or gains movable property in a form of gift, the tax form is submitted to the public revenue office on which territory the taxpayer resides.

The public revenue office is obliged to determine the amount for inheritance and gift tax within 30 days from the day the tax form was submitted and sends the tax form to the taxpayer.

- **Deadlines – trade tax**

The taxpayer that pays trade tax is obliged to submit a tax form within 15 from the day the tax obligation has occurred.

The tax form is submitted to the public revenue office

If the taxpayer inherits or gains movable property in a form of gift, the tax form tax form is submitted to the public revenue office on which territory the taxpayer resides.

The public revenue office is obliged to determine the amount for trade tax within 30 days from the day the tax form was submitted and send the tax form to the taxpayer.



- **Ways of payment**

The property tax is paid every trimester and the tax bill is sent in the middle of the trimester.

The inheritance tax and trade tax are paid within 15 days from the day the tax bill is received by the taxpayer.

- **Collection procedure**

The ways of collection and procedures for forced collection, which are not determined by the Property tax law, are executed according to the Personal Income Tax Law.

- **Level of collection**

The level of collection of property tax is not satisfactory and has shown tendency of steady decrease over years (shown in the charts). This demonstrates the financial situation that the local governments have been faced with and the need to undertake concrete activities, which would make the property tax a real and constant own revenue source to local governments.

- **Distribution**

The distribution is done in accordance with the Law on Budgets. The property tax is collected in the former larger local government units and it is further distributed according to the determined system of redistribution.

- **Effects**

Conclusions and recommendations that come out of this analysis present precious help and basis for further actions towards changing and amending the current legal framework from this sphere, gradual taking over of the competency by the local governments in administration and collection of the property tax, appropriate distribution and creation of real and constant own sources of revenue.

- **Penalties**

Although the Property tax states provision for penalties, these are only partially or not implemented at all.





- **Overall Conclusions**

Bases on these facts, the Association has identified the following issues and problems which require further study and discussions which ultimately lead to improvements to the overall property tax system in the Republic of Macedonia.

1. The Central Government passes and implements and controls all aspects regarding the Property Tax Law.
2. The property records in municipalities are incomplete and are not regularly updated.
3. The registered and established value of the property are not corresponding with the market value.
4. The tax assessment is not real.
5. The preparation and submission of the tax bills is inefficient.
6. The property tax collection is very low with constant trend of decreasing.
7. The penalty provisions are not implemented at all.
8. Influence of the beneficiaries of the property taxes is completely hindered by the Law;
9. Insufficient transparency in the area of property taxes.



## The Data: A Historical and Comparative Analysis for Five Municipalities

This section of the study provides information on tax assessment and collection rates over a three-year period for five municipalities: Berovo, Delcevo, Negotino, Struga and Strumica. This sample represents both small and large municipalities (“old” municipalities) and reflects varying levels of tax collection rates. While additional municipalities will be included in future studies; nevertheless, the data presented provides a solid basis for reviewing and discussing the problems and issues facing ALL municipalities in the assessment, collection and administration of the property tax in the Republic.



## **CONCLUSION FOR BEROVO**

The data presented in the Table show that during the last years the property tax as an inherent source of revenue to the budget of the units of local self-government cannot provide enough financial means for the municipalities because its collection is decreasing due to the lack of interest on the side of the Public Revenue Office for its collection as well as due to the delay in the adoption of the tax bills on property tax in 2001 and especially in 2002 because of what the Table does not contain data on 2002 tax assessment.

Therefore, the attention should be paid to the updating of the data in the main register of taxpayers of the property tax, as well as to the bigger use of the enforced collection of the outstanding debts on the basis of the property tax by the Public Revenue Office, and to provide for the units local self-government to have certain competencies in the control over the tax assessment and collection of the property tax as their inherent source of revenue.



## **CONCLUSION FOR DELCEVO**

From the data on property tax obtained from the Public Revenue Office, Dekevo Office for the period 2000 to 2002, it can be concluded that the tax assessment is within the same limits (approx. 2,100,000.00 MKD). This can lead to a conclusion that no additional measures were undertaken on discovering the unregistered property tax.

The collection of the property tax in the period subject to the analysis is constantly decreasing. It is due to the inefficiency of the collection by the Public Revenue Office.

Because of the poor collection, the budgets have been executed up to 65% of the projected one during this period.

By the mid-November 2002, the tax assessment on property tax for 2002 has not yet been finalized, and because of that the collection in 2002 is very low as well (684,000.00 MKD).



## **CONCLUSION FOR NEGOTINO**

The main thing to be concluded hereby is that the number of tax bills on tax assessment does not vary or it is only a symbolic number or situation that has been the same since 1994 when this kind of tax bills were adopted for the first time.

Previously concluded situation indicates the fact that the records updating - the extent of the property is at the lowest possible level, and some rare cases are obtained by force from the taxpayers themselves. If we begin from the fact that the situation with the property is a variable category, on a daily basis even, it means that there have been radical changes over these past years and the failure to register and assess them causes distortion of the whole system of this type of tax in the sense of the extent, tax assessment, collection that finally results in smaller and smaller collection which in 2001 was only 48%.

The same tax assessment in the amount of 6,3 million MKD a year in the period of 9 years means lack of new taxpayers and tax basis.

All the aforementioned refer to 3 years in the Table (2000, 2001 and 2002). If we look at the 2002 data, we can notice one phenomenon too.

By October, the collection percentage was 17% that was approximately the same for all the other previous years, which derived from the early established practice the property tax to be collected the last month and even the last day of the year, although it is stipulated by the law to be on three-month basis.

This practice of tax collection on the last day of the last month in a year is very often supported by the Public Revenue Office and the government structures at the time during the election years so that the tax bills on property tax are usually not issued before any elections, and especially before and during the election campaigns. The taxpayers on their part commensurately respond to this and pay either when they want or when they are forced to. As the result of all these deviations, the collection is worse from year to year.



## CONCLUSION FOR STRUGA

On the basis of the analysis of the changes in the tax assessment and collection of the tax assessment on property taxes and the appertaining rights, the following can be concluded:

1. Tax on real estate of legal entities - the tax collection shows the increase - 40% in 2000, 60% in 2001 and 76% in 2002.
2. Tax on real estate of physical entities: 2000 - 62%, 2001 - (collection decrease) - 28% and 2002 - 7% (delay in tax bill submission, irregularities in submissions).
3. Tax on movable of legal entities: 14% in 2000, 66% in 2001 and 72% in 2002 (financial discipline achieved).
4. Tax on movable of physical entities: 7% in 2000, 66% in 2001 and 53% in 2002.
5. Tax on inheritance and gift: 100%.
6. Tax on turnover of real estate and appertaining rights: 100%.

I. In relation to the property tax - movable and real estate of legal entities, the percentage of collection during these 3 years has been increasing which means that the legal entities achieved bigger financial power, tried to and observe the given deadlines, and at the same time, attempt to run the tax policy properly.

II. Property tax of physical entities – real estate  
During the analysis we came to conclusion that in 2001 the collection was significantly decreased primarily due to the war crisis in the country, as well as decreased financial power, numerous social cases that was getting bigger from day to day.

In 2002 the collection decreased even more because of the untimely adoption of the tax assessments (tax bills), and even more because of the irregular submission of tax bills by electronic mail.

We expect the collection to increase during the following months and especially in December when the taxpayers are settling their debts for this year.

III. Tax on turnover of real estate and appertaining rights was 100% collected because the taxpayers who wanted to exercise their other rights (transfer and similar) needed verification of the tax payment.

During these 3 years, the tax assessment on the basis of the adopted tax bills is really 100% collected, but it is decreased due to the decrease of the purchasing power. The sales offer is bigger - the prices are smaller and parallel to that, the tax is decreasing.



## **CONCLUSION FOR STRUMICA**

The total number of tax bills prepared for the tax assessment on property tax for the Municipality of Strumica is 18,715 whereas 46 are for legal entities and the bigger number of them - 18,669 are for physical entities, and the collection of these taxes is followed together. It can be seen from the Tables that the tax assessment amount in the last 3 years is at the same level, which shows that the tax data have not been updated during this period. Since the taxpayers fill in the tax forms for the property tax by themselves, we cannot be certain whether the submitted property values correspond with the market value.

The tax bills have been submitted by mail, and we have been informed that for 2002 instead of sending them within the legal framework by 31 March 2002 they were sent during the last quarter of the year and redelivery notes were not received back for many tax bills. This mistake was maybe one of the main factors for the collection of the property tax for 2002 to be extremely unsatisfactory, and the trend of decrease have been noticed beginning with 2001.

Although the collection percentage of the property tax is rapidly decreasing, the penalty provisions from the law are not being applied at all, and the forced collection only in some rare cases. Thus, in relation to the tax assessment for 2002 in the Public Revenue Office – Strumica, forced collection was carried out in 49 public enterprises, schools, private companies and other institutions and 594 tax bills of physical entities employed in them. This example shows that certain measures with regards to the collection can be undertaken but it is simply not done.



## COMMENT ON CONCLUSIONS

### Overall Summary and Comments on Key Findings

On the basis of the analysis done in 5 municipalities in the Republic of Macedonia, we can come to the following conclusions:

- The property tax rate stipulated by the law is good but its collection percentage is not satisfactory. The latter derives from the fact that in the analyzed municipalities the total collection of the property taxes and especially the first four types (property tax – real estate of legal and physical entities) is continuously decreasing (in absolute as well as in relative values). The collection of the first four types in 2000 was 16,037,000.00 MKD or 62% of the tax assessment, in 2001 the amount of collected taxes was 12,996,000.00 MKD or 39% and in 2002 the collection was the lowest – 5,550,660.00 MKD or 15% of the tax assessment. (See collective Table for all the analyzed municipalities).
- Every municipality should have information on the real estate of its citizens who are the taxpayers. But, this is not being implemented in the practice, which can be seen from the practically not changed number of tax bills on tax assessment from year to year. Number of tax bills has not varied or only symbolically varies since 1994 when this type of tax bills was adopted for the first time. Previously concluded situation indicates the fact that the updating of the records is at the lowest possible level, and certain cases are forced from the taxpayers themselves, most often during the settling down of property ownership and legal relations regarding selling/purchasing the property or inheritance. If we begin from the fact that the situation with the property is a variable category, on a daily basis even, it means that there have been radical changes over these past years and the failure to register and assess them causes distortion of the whole system of this type of tax in the sense of the extent, tax assessment, collection that finally results in smaller and smaller collection which in 2002 for all the types of these taxes collectively was only 52% and only for the first four types it was modest 15%! We can freely conclude that such a situation is a reflection of the fact that the taxpayers are filling in the property tax forms by themselves without anyone to check whether the filled in value corresponds to the market value that contributes to them being not realistic.
- The tax bills are being submitted by mail with considerable delay (not within the legal framework by 31 March) so that some taxpayers do not even get them for the current year at all because the redelivery notes were not received





back for many tax bills. This is especially the case in 2002 when this situation contributed to the collection percentage by October to be 15%. This low collection percentage for this period is also characteristic for all the previous years too, and it derives from the established practice the property tax to be paid the last month, even the last day of the year although it is stipulated by the law to be on three month basis. This practice of tax collection on the last day of the last month in a year is very often supported by the Public Revenue Office and the government structures at the time during the election years so that the tax bills on property tax are usually not issued before any elections, and especially before and during the election campaigns. The taxpayers on their part commensurately respond to this and pay either when they want or when they are forced to. As the result of all these deviations, the collection is getting worse from year to year.

- If the tax bills are not submitted on time we cannot expect to have a good collection of the property tax. The trend of decreasing of the collection continues and no measures are undertaken for its improving.
- The penalty provisions of the law are not being applied although the forced collection of the property tax is provided for.
- Local governments that are the beneficiaries of the property tax do not participate in its administering although they depend on its collection and are more motivated to successfully accomplish this operation than the Public Revenue Office (the central government).
- Nothing has been done on informing the citizens where their monies go after they pay the taxes. Maybe if they had the information on how their monies were spent and what they got, the property tax collection percentage would increase in return.

The data presented in the Tables show that during the last years the property taxes as an inherent source of revenue to the budget of the units of local self-government cannot provide enough financial means for the municipalities because their collection is permanently decreasing due to the lack of interest on the side of the Public Revenue Office for its collection as well as due to the delay in the adoption of the tax bills on property tax in 2001 and especially in 2002 because of what some of the Tables do not contain data on 2002 tax assessment.

Therefore, the attention should be paid to the updating of the data in the main register of taxpayers of the property tax, as well as to the bigger use of the enforced collection of the outstanding debts on the basis of the property tax by the Public Revenue Office, and to provide for the units of local self-government to have certain competencies in the control over the tax assessment and collection of the property tax as their inherent source of revenue.



## CONCLUSIONS

Based on these conclusions we recommend the following issues and concerns be addressed and become the subject for further study.

1. The property tax rate stipulated by the law is good but its collection percentage is not satisfactory and needs to be reassessed.
2. Every municipality needs to have information on what kind of property its citizens have, who the taxpayers are and what amount of funds it can expect from the property tax.
3. Taxpayers fill in the property tax forms by themselves without anyone checking whether they correspond to the market value or not. Without checking whether the tax forms correspond to the actual parameters of the property that is the subject of taxation, that makes them not factual.
4. The tax bills are submitted by mail with enormous delay from the timeframe (31 March) prescribed by the law in the municipality, and there are cases when some taxpayers do not even get one for a current year.
5. If the tax bills are not submitted on time we cannot expect to have a good collection of the property tax. The trend of decreasing of the collection continues and no measures are undertaken for its improving.
6. The penalty provisions of the law are not being applied although the forced collection of the property tax is provided for.
7. Local governments that are the beneficiaries of the property tax do not participate in its administering although they depend on its collection and are more motivated to successfully accomplish this operation than the Public Revenue Office.
8. Nothing has been done on informing the citizens where their monies go after they pay the taxes. Maybe if they had the information on how their monies were spent and what they got, the property tax collection percentage would increase in return.



## RECOMMENDATIONS

- The Law on Property Tax to be adopted by the central government;
- Each and every type of the property taxes should be regulated by a separate law<sup>1</sup>;
- The units of local self-government, ZELS and AFO should participate in the development of the Law on Property Tax;
- To allow the tax rate to be increased or decreased up to 50% of the prescribed rate;
- Registration of Property values and payment of property tax is done on a voluntary basis. Such a system encourages the under evaluation of property and tax payment evasion.
- The bylaws should be simpler, more comprehensible and easy to apply;
- Implementation - administering of the Law on Real Estate Tax to be performed by the units of local self-government;
- Data from the responsible state bodies and public enterprises that are under the complete coordination of the units of local self-government to be used for registration of the real estate;
- Final deadlines for complete registration of the real estate should be defined;
- Continuous updating of the records of the real estate;
- A committee for determining the market value of the real estate should be established;
- Creation of necessary conditions for real and fair tax assessment;
- Charging interest for overdue payment of the property tax;
- The unified form and content of the tax bills on property tax should continue to exist;
- Use of forced collection;

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<sup>1</sup> Separate laws should be adopted on:

- the tax on movable,
- the tax on real estate,
- the tax on turnover of real estate,
- the tax on inheritance and gift.



- Fair use of penalty provisions;
- Citizens need to understand the importance of paying property tax. This could be done in a number of ways:
  - development of flyers,
  - advertisements and their broadcasting on local TV and radio stations,
  - organizing press conferences, briefings etc.
  - public debates in neighborhood communities,
  - informing the citizens on collection and spending of the funds from the property tax.



## Graphic presentation on the Property tax Collection for the last three years

